



Challenging Year Ahead From Snowball Effect

As expected, F&B sector immediately felt impact from expat outflow (see "Impact Analysis: Expat Fees and Consumption," 26-Feb-2017) however the snowball effect has yet to play out. Notably we see closures across restaurants to accelerate (shrinking workforce) and regulatory changes (Saudization, electronic payments). This, in our view, is not fully priced by the market as focus firmly remains on upcoming index implementation where Almarai stands to benefit. Shares have gained +12.5% YTD and we expect momentum to sustain until fundamentals resurface. Reiterate Buy and SAR 61 target price, representing 18.4x 2020E EV/EBITDA.

Dairy & Juice contract -6% Y/Y

Revenues for the quarter declined -0.9% Y/Y to SAR 3,389 mln, slightly below our SAR 3,410 mln forecast and -1.5% Y/Y for F2018 to SAR 13.7 bln. Dairy and Juice segment contracted nearly -6% Y/Y on expat outflow and potential impact from price increase. Management indicates stabilization in fresh milk market share since the initial impact in 3Q18 (260 bps loss). Meanwhile laban and zabadi continued to be affected, shedding 610 bps and 400 bps, respectively. Compounding the pressure has been shrinking market size. Conversely, bakery showed turnaround growing +1.7% Y/Y. Poultry (135m birds) maintained double-digit clip at +26% Y/Y with management guiding towards further growth in 2019 targeting 180m birds. Overall for 2019, management remains cautious however early signs are encouraging.

Gross margin compressed on promotions

Gross margin compressed c. 260 bps primarily due to promotions on bakery (new product launches) and long life dairy (surplus milk). Almarai gained market share in LLD likely at the expense of SADAFCO. Management feels that milk glut situation seen in 2018 is easing (c. 50% absorbed) which should limit promotions and discounts in 2019. Interestingly, other dairy producers have not increased prices following Almarai's lead which suggests positive volume impact (NADEC likely beneficiary). Alfalfa is 100% imported as of Nov-2018 where the cost differential is substantial (domestic production \$200/t vs. import at \$320/t net of subsidy). Consequently, government grants will rise (offsetting COGS) however the prospect of subsidy phase-out remains on the horizon. We estimate c. 100 bps gross margin impact with subsidy and 300 bps if grants discontinue.

One-offs drag earnings lower

Even after adjusting for SAR 127 mln one-off impairments, operating income fell 2.5% short of our estimate. The impairments consisted of discontinued KSA arable ops and associated loss (SAR 77 mln) plus GCC (SAR 27 mln) and Jordan (SAR 23 mln). Jordan ops are under review however further charges are not expected. Adjusted net income of SAR 497 mln (-3.2% Y/Y) missed our SAR 531 mln estimate and consensus SAR 576 mln.

SAR mln	4Q18	4Q18E	4Q17	Y/Y Chg	3Q18	Q/Q Chg	Consensus	% Variance
Sales	3,389	3,410	3,418	-0.9%	3,371	0.5%	3,405	-0.6%
Dairy & juice	2,381	2,480	2,525	-5.7%	2,431	-2.0%		-4.0%
Bakery	475	454	467	1.7%	435	9.2%		4.5%
Poultry	494	443	392	26.1%	457	8.2%		11.6%
Others	38	33	35	10.7%	49	-21.3%		15.3%
Gross profit	1,235	1,287	1,335	-7.5%	1,452	-15.0%		-4.1%
Gross margin	36.4%	37.7%	39.1%		43.1%			
EBITDA	798	1,074	933	-14.5%	1,084	-26.4%	1,215	-25.7%
EBITDA margin	23.5%	31.5%	27.3%		32.1%		35.7%	
Operating income	466	608	599	-22.2%	755	-38.3%	719	-23.4%
Operating margin	13.7%	17.8%	17.5%		22.4%		21.1%	
Net income	370	531	513	-27.9%	635	-41.7%	576	-30.4%
Net margin	10.9%	15.6%	15.0%		18.8%		16.9%	
EPS (SAR)	0.37	0.53	0.51	-27.9%	0.63	-41.7%	0.58	

SAR 61

12-Month Target price

Buy

Recommendation

Stock Details

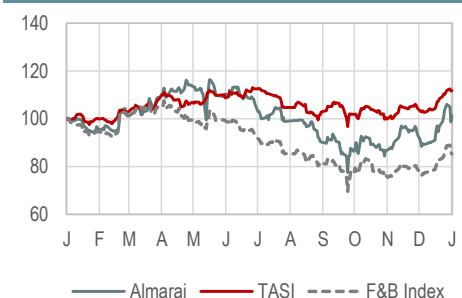
Last Close Price	SAR	54.00
Upside to target	%	13.0
Market Capitalization	SAR mln	54,000
Shares Outstanding	mln	1,000
52-Week High	SAR	62.80
52-Week Low	SAR	40.80
Price Change (YTD)	%	12.5
3-Mth ADTV	thd	307
EBITDA 2019E	SAR mln	3,982
Reuters / Bloomberg	2280.SE	ALMARAI AB

SAR mln	2018	2019E	2020E
Revenues	13,723	13,700	13,768
Gross Margin	40%	40%	39%
EBIT	2,461	2,552	2,546
Operating Margin	17.9%	18.6%	18.5%
Net Income	2,007	2,099	2,106
Net Margin	14.6%	15.3%	15.3%
EPS (SAR)	2.01	2.10	2.11
DPS (SAR)	0.85	1.00	1.00

Price Multiples

	2018	2019E	2020E
P / E	26.9x	25.7x	25.6x
EV / EBITDA	17.2x	16.7x	16.6x
P / S	3.9x	3.9x	3.9x
P / B	3.9x	3.7x	3.4x

1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

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BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

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Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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